

## Message Text

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44

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UNCLAS WELLINGTON 3937

E.O. 11652: N/A

TAGS: EALR, ENRG, EGON, EFIN, EMIN, NZ

SUBJECT: NEW ENERGY PRICING POLICY STIRS MIXED EMOTIONS.

1. SUMMARY: GNZ RECENTLY ANNOUNCED NEW ENERGY POLICY HAS PROMPTED SOME SERIOUS CRITICISM BY PETROLEUM EXPLORATION AND SOME OTHER INTERESTS. HOWEVER, THE POLICY WHICH, IN ADDITION TO A LEVY ON PETROLEUM, INCLUDES STEEP INCREASES IN THE PRICE OF ELECTRICITY COAL AND NATURAL AND MANUFACTURED GAS, A PRICING SCALE FOR DIFFERENT FORMS OF ENERGY AND OTHER INOVATIONS, HAS SO FAR EVOKED ONLY MILD INTEREST AND LIMITED COMMENT FROM MOST OTHER INTERESTED SECTORS AND THE GENERAL PUBLIC. END SUMMARY.

2. ACCORDING TO THE MINISTER OF ENERGY RESOURCES, IN ANNOUNCING THE NEW POLICY, ON JANUARY 1, 1977 COAL PRICES WILL INCREASE 25 PERCENT, THE NATURAL GAS PRICE, ABOUT 40 PERCENT AND MANUFACTURED GAS 25 TO 30 PERCENT AND ON APRIL 1, 1977 THE BULK CHARGE FOR ELECTRICITY WILL RISE 40 PERCENT, (ABOUT 30 PERCENT RETAIL PRICE INCREASE). UNDER THE NEW

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RELATIVE PRICING SCALE COAL PRICES WILL BE SET ON AVERAGE AT 2/3

THE INDUSTRIAL FUEL OIL PRICE (I.E. AN AVERAGE PRICE PER TONNE INCREASE OF ABOUT \$4.60), NATURAL GAS PRICES WILL BE SET ABOUT 15 PERCENT BELOW FUEL OIL PRICES. THIS IS TO REFLECT THE QUALITY OF THE DIFFERENT FUELS AND UTILIZATION FACTORS. THE PRICE OF ELECTRICITY, A PREMIUM FUEL, WILL BE ADJUSTED TO COVER BOTH CURRENT COSTS AND AN "ADEQUATE CONTRIBUTION TO DEVELOPMENT".

3. VARYING "ENERGY RESOURCES LEVIES" ON NON-RENEWABLE RESOURCES BASED ON DEVELOPMENT COSTS, COMPETITION, SCARCITY ETC ARE TO BE INTRODUCED. THIS WILL, ENTER ALIA, ALLOW FINANCING OF ENERGY EXPLORATION, DEVELOPMENT, MARKETING, RESEARCH AND CONSERVATION. THE LEVY ON COAL WILL BE \$2 PER TONNE, NATURAL GAS APPROXIMATELY 4.75 CENTS PER THERM AND PETROLEUM LIQUIDS ABOUT \$3 PER BARREL. SOME INCREASED MARGINS WILL BE ALLOWED TO FUND NEEDED CAPITAL WORKS.

4. THE PETROLEUM EXPLORATION INDUSTRY HAS REACTED STRONGLY TO THE \$3 PER BARREL LEVY. SPOKESMAN FOR THE EXPLORATION INTERESTS, RECALLING THAT THE GOVERNMENT ONLY A FEW MONTHS AGO DROPPED ITS POLICY OF PUTTING UP 40 PERCENT OF EXPLORATION AND DEVELOPMENT COSTS IN RETURN FOR 51 PERCENT OF THE RETURN AND THEN ADDED AN EXCISE TAX OF 10 TO 15 PERCENT ON PROFITS, HAVE ACCUSED IT OF CHANGING THE RULE BOOK ON EXPLORATION. THEY HAVE THREATENED TO STOP FURTHER EXPLORATION. IN THE FACE OF THIS STRONG REACTION THERE ARE SOME REPORTS THAT THE GOVERNMENT MIGHT RECONSIDER ITS DECISION ON THE OIL LEVY.

5. THOUGH THE OPPOSITION SPOKESMAN AND OTHERS HAVE CRITICISED THE POLICY PRINCIPALLY AS IT WILL INCREASE PRESSURE ON PRICES, SO FAR NO OTHER SECTORS HAVE REACTED AS STRONGLY AS THE EXPLORATION INTERESTS. THE INDUSTRIAL SECTOR HAS BEEN NOTABLY LACKING IN ANY ORGANIZED CAMPAIGN AGAINST THE NEW POLICY. CONSUMER INTERESTS THOUGH CRITICAL OF THE EFFECT ON PRICES, HAVE NOT MADE A CONCENTRATED EFFORT TO GET ANY CHANGE.

6. THE PRICE INCREASES, ARE TIME TO TAKE EFFECT  
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AFTER THE PRICE FREEZE ENDS, ON DECEMBER 31, 1976. DELAYING THE INCREASE IN THE ELECTRICITY PRICES WILL ALSO POSTPONE THE INEVITABLE INCREASED PRESSURE ON THE RATE OF CPI INCREASE.

7. NECESSARY LEGISLATURE TO IMPLEMENT VARIOUS PARTS OF THE NEW POLICY WILL BE INTRODUCED BEFORE THE END OF 1976.

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